

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 0925

E.O. 11652: GDS: 12-31-80

TAGS: NATO, XG, ETRN

SUBJECT: REPORT ON CENTRAL EUROPE PIPELINE POLICY COMMITTEE
(CEPPC) MEETING OF 14-15 FEBRUARY 1974

DEFENSE FOR OASD/I&L, MR. NOLAND AND COMPT, MR. UMBARGER; STATE
FOR EUR/RPM, MR REHFELD; JCS FOR J-4 PETROLEUM; USCINCUER FOR J-4 JPO
;
AMEMB PARIS FOR MR HUMPHREYS; NSE/NSSG FOR MR MINER.

REF: A. USNATO 0320 C. USNATO A-151

B. STATE 18606 D. USNATO 0863

BEGIN SUMMARY. CEPPC MEETING IN FEBRUARY COVERED NUMBER OF ITEMS:
1974 CENTRAL EUROPE PIPELINE SYSTEM (CEPS) BUDGET APPROVED WITH
ADDITIONAL BLOCKING OF FRENCH AND GERMAN PERSONNEL SPACES; CEPS AND
BRUDENSHARING DISCUSSION HIGHLIGHTED NEED FOR POLITICAL DECISION ON
FORMULA FOR CONTRIBUTIONS, WITH CEPPC CONTINUING TO PRESS FOR
RESOLUTION OF AREAS WHICH AFFECT CEPS SHORTFALL. FIRST 1974
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SUPPLEMENTARY BUDGET ON ADN ENGIN PROCUREMENT WAS DEFERRED, PENDING
ADDITIONAL CENTRAL EUROPE OPERATING AGENCY (CEOA) ACTION. DRAFT
CEEPC REPORT TO COUNCIL WAS NOTED. EXTENSION OF LAVERA-STRASBOURG
LINE WAS AUTHORIZED, BASED ON INCREASED FRENCH CIVIL TARIFFS, SUBJECT

TO CONFIRMATION BY US. GENERAL MANAGER REPORT ON ACCOMPLISHED AND PROPOSED CIVIL TARIFF INCREASES FOR FOUR HOST NATIONS. RESTRICTED SESSION ON SELECTION OF GENERAL MANAGER SAW REAFFIRMATION OF PREVIOUS VIEWS AND A REQUEST TO NATIONS TO MAKE NOMINATIONS BY 24 JUN. MISSION REMAINS CONVINCED THAT US SHOULD MAKE NOMINATION. END SUMMARY.

COMMENTS ON AGENDA ITEMS FOLLOW:

I. APPROVAL OF AGENDA.

CEOA ADDED THE FOLLOWING TOPICS UNDER OTHER BUSINESS: LAVER-STRASBOURG CONTRACT, MARSEILLES TO BELFORT TARIFF, VICIL AND MILITARY TARIFF INCREASES; BELGIUM ADDED THE TOPIC OF CUSTOMS AND TAXES REPORT.

II. 1974 BUDGETS FOR CEOA AND DIVISIONS.

DISCUSSION CENTERED ON REQUESTED GERMAN AND FRENCH ASSURANCES THAT EACH COUNTRY WOULD TAKE STEPS TO REDUCE THEIR PERSONNEL ESTABLISH-

MENTS, INCLUDING GUARDING, TO ACHIEVE A FURTHER REDUCTION IN CEPS OPERATING COSTS. ALTHOUGH THE GERMANS WERE MORE HELPFUL THAN THE FRENCH, NEITHER COUNTRY WAS ABLE TO PROVIDE ANY ASSURANCES THAT IT HAD BEGUN A SERIOUS CEPS PERSONNEL REVIEW. AS A RESULT, CEPPC BLOCKED FUNDS FOR 25 PERCENT OF GUARDING PERSONNEL IN BOTH FRANCE AND GERMANY. ADDITIONALLY, 19 UNIDENTIFIED SPACES IN THE GERMAN OPERATING DIVISIONS WERE BLOCKED. US IN ACCORDANCE WITH REF B, JOINED BELGIUM AND NETHERLANDS IN LIFTING RESERVATIONS AND APPROVING 1974 CEPS BUDGET WITH THOSE BLOCKAGES.

III. FINANCIAL PROBLEMS ARISING FROM THE STATIONING OF US FORCES IN EUROPE.

SINCE THE MINUTES OF LAST WEEK'S COUNCIL MEETING HAD NOT BEEN PUBLISHED, CEPPC CHAIRMAN (HOLDEN) EXPRESSED SOME UNCERTAINTY AS TO SPECIFIC DIRECTION FOR CEPS AND BURDENSARING. AFTER CONSIDERABLE DISCUSSION, THE COMMITTEE CONCLUDED THAT CEPS SHOULD CONTINUE TO BE PART OF THE OVERALL BURDENSARING DISCUSSIONS IN COUNCIL WHERE CONFIDENTIAL

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A POLITICAL DECISION IS HOPED FOR IN DESIGNATING ONE OF THE BURDENSARING FORMULAE PROVIDED BY CEPPC TO THE COUNCIL. MEANWHILE, THE COMMITTEE WILL CONTINUE ITS EFFORTS TO REACH A CONCLUSION IN THOSE AREAS WHICH CONTRIBUTE TO REDUCING THE SYSTEM SHORTFALL IRRESPECTIVE OF COST SHARES. THIS WOULD INCLUDE SUCH AREAS AS: RAISING OF TARIFFS; ELIMINATION OF TAXES NOW CHARGED TO CEPS, REDUCTION OF PERSONNEL COSTS; DEVELOPMENT OF RESTORATION AND REHABILITATION PROGRAM. ANY SAVINGS THUS IDENTIFIED COULD THEN BE ADDED TO US SAVINGS IN ITS COST SHARE FOR PURPOSES OF JACKSON-NUNN ACCOUNTING. THE COMMITTEE ESTABLISHED A SMALL WORKING GROUP CONSISTING OF CHAIRMAN(HOLDEN), NETHERLANDS REP (HOFFMAN) AND US REP (WITKO),
TO IDENTIFY PUBLISHED DOCUMENTATION AND RECOMMEND ACTIONS CONCERNING

THE SUBJECT AREAS LISTED ABOVE. THE COMMITTEE'S NEXT MEETING IS TO BE DEVOTED TO RESOLVING DIFFERENCES ON THESE SUBJECTS.

TO MAKE SURE THAT THERE IS NO MISUNDERSTANDING OF THE US POSITION ON CEPS AND BURDENSARING, THE US RECALLED THAT IT HAD BEEN SEEKING RELIEF FROM ITS 36 PERCENT SHARE OF THE SHORTFALL FOR SOME TIME NOW AND THAT IT CANNOT AGREE TO PARTICIPATE IN SUCH A SHARE OF ANY DEFICIT DURING 1974 AND BEYOND, IRRESPECTIVE OF WHAT HAPPENS IN OVERALL BURDENSARING DISCUSSIONS. WHILE THE US CONTINUES TO ASK ITS NATO ALLIEES FOR BURDENSARING ASSISTANCE IN REGARD TO THE CEPS, IT IS NOT IN A POSITION TO AGREE TO ANY CEPS CONTRIBUTIONS UNTIL SOME DECISION IS REACHED ON BURDENSARING AND THE CEPS.

IV. FIRST SUPPLEMENTARY BUDGET 1974.

THIS SUPPLEMENTARY BUDGET ASKS FOR BUDGET APPROVAL TO PURCHASE 15 ENGINES WHICH CENTRAL EUROPE PIPELINE OFFICE (CEPO) RECOMMENDS AS BEING MILITARILY REQUIRED TO REPLACE WORN-OUT ADN ENGINES. CEOA HAS MADE ESTIMATE THAT PROJECT WILL COST APPROXIMATELY FF 5 MILLION OVERALL, WITH FF 1.3 MILLION IN 1974, 3.1 MILLION IN 1975 AND REMAINDER IN 1976. THIS SUBJECT HAS BEEN UNDER STUDY FOR PAST TOW YEARS. THESE 15 ADN ENGINES ARE THE FIRST INCREMENT OF SOME 90 WHICH WILL HAVE TO BE REPLACED EVENTUALLY. PROCUREMENT IS TO BE MADE THROUGH NATO MAINTENANCE AND SUPPLY AGENCY (NAMSA), WITH THE SPECIFICATIONS TO BE DRAWN UP BY NAMSA WITH THE TECHNICAL ASSISTANCE OF DEOA AND THE HOST NATIONS. A DECLARATION OF INTENTION IS NEEDED TO PREFINANCE THE ENGIN COSTS SO THAT INFRASTRUCTURE FUNDING POSSIBILITY CAN BE SAFEGUARDED. THE FIRST 15 ENGINES TO BE REPLACED
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ARE THOSE SHOWING THE GREATEST WEAR. CEOA IS DEVELOPING A PLAN TO USE PARTS FROM THE OLD ENGINES TO REFURBISH OTHER ENGINES IN THE FUTURE. THE COMMITTEE AUTHORIZED CEOA TO BEGIN DEVELOPMENT OF SPECIFICATIONS, INFORM NAMSA OF OUR INTENTIONS TO USE THEM AS PROCURE

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MENT AGENCY, AND COMPLETE DEVELOPMENT OF PLAN TO USE REPLACED ENGINES. COMMENT: THESE ENGINES ARE REQUIRED FOR CONTINUED OPERATIONS OF CEPS. PROCUREMENT BY INTERNATIONAL COMPETITIVE BIDDING THROUGH NAMSA WILL ASSURE MOST ECONOMICAL ENGINE SELECTION. ADDITIONAL ENGINE PROCUREMENT AFTER FIRST 15 WILL BE FROM SAME CONTRACTOR, THUS ACHIEVING PARTIAL STANDARDIZING OF SYSTEM ENGINES. ACTION REQUESTED: WASHINGTON APPROVAL OF THIS BUDGET ITEM.

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V. DRAFT REPORT BY CEPPC TO THE COUNCIL FOR 1972.

COMMITTEE NOTED REPORT (AC/120-D/838) AND AGREED THAT IT BE
FORWARDED TO THE NAC.

VI. PROPOSED AMENDMENT OF FINANCIAL REGULATIONS FOR CEOA
(AC/120-D/839).

DOCUMENT CONTAINS INCREASES IN THE AMOUNTS OF MONEY WHICH CEOA
CAN SPEND FOR ITEMS WITHOUT CALLING FOR BIDS, AS WELL AS INCREASING
THE EMERGENCY AMOUNT WHICH CAN BE EXPENDED BY DIRECTOR OF FINANCE
IN A CRISIS TO KEEP CEPS OPERATIONAL. AMOUNTS PROPOSED ARE CONSISTENT
WITH NATO BOARD OF AUDITORS' RECOMMENDATIONS BUT ARE LOWER THAN
THOSE USED BY OTHER NATO BUDGET COMMITTEES. COMMITTEE APPROVED
DOCUMENT AND INVITED CEOA GENERAL MANAGER TO RESUBMIT PROPOSAL WITH
CLAUSES WHICH WOULD BRING REGULATIONS IN LINE WITH OTHER NATO
BUDGETS.

VII. TARIFF FOR CIVIL MOVEMENTS TO THE WESTERBURG DEPOT (AC
/120-D/841).

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TARIFF WAS SET, BASED ON TARIFFS FOR SIMILAR DISTANCES IN
GERMANY, PLUS AN INCREASE TO RAISE REVENUES FROM CIVIL MOVEMENTS FOR
YEAR. BELGIUM COULD NOT ACCEPT TARIFF UNTIL THE INCREASE NOW BEING
NEGOTIATED BETWEEN GERMANY AND CIVIL USER IS KNOWN. CEOA AGREED
TO RESUBMIT PAPER AFTER NEGOTIATIONS ARE CONCLUDED.

VIII. 1974 PROPOSED MEETING DATES.

CEPPC AND CEPO REALIGNED THEIR MEETING DATES FOR THE REMAINDER
OF YEAR. CEPPC RESCHEDULED NEXT MEETING FOR APR 8-9.

IX. ANY OTHER BUSINESS.

A. EXTENSION OF 1974 CIVIL CONTRACT FOR LAVERA-STRASGOURG LINE.

GENERAL MANAGER REPORTED FRANCE HAD NEGOTIATED CIVIL TARIFF INCREASES OF 13.3 PERCENT ON THE LAVERA-STRASBOUGH LINE. IN RECOMDNDING ACCEPTANCE OF TIS CONTRACT, GENERAL MANAGER REPORTED ADDITIONALLY THAT FRANCE WAS NEGOTIATING AN INCREASE OF 23.3 PERCENT FOR THE CIVIL TARIFF ON LE HAVRE-VALENCIENNES LINE, COMMENCING 1 FEB. COMMITTEE APPROVED EXTENSION OF LAVERA-STRASBOUGH CONTRACT WITH INCREASED CIVIL TARIFF, SUBJECT TO CONFIRMATION BY THE US.

COMMENT. THE TWO REPORTED TARIFF INCREASES FOR CIVIL USE OF FRENCH LINES ARE COMPATIBLE WITH MILITARY TARIFF INCREASES. HOW MUCH OF CIVIL TARIFF INCREASE WILL BE EATEN UP BY INCREASED OPERATIONAL COSTS OF LINES IS QUESTION WHICH CEOA CANNOT AS YET ANSWER. ACTION REQUESTED: CONFIRMATION BY 1 MAR OF APPROVAL OF CIVIL CONTRACT COVERING LAVERA-STRASBOURG LINE FOR REMAINDER OF 1974.

B. CIVIL TARIFFS FOR NETHERLANDS LINE.

GENERAL MANAGER REPORTED THAT DUTCH AUTHORITIES ARE NEGOTIATING INCREASE OF APPROXIMATELY 15 PERCENT IN TARIFF FOR CIVIL USE OF PERNIS-SKIPO LINE. FURTHER CONDITIONS INCLUDE EXTENSION OF CONTRACT TO DECEMBER 1978, REDUCTION OF MAXIMUM GUARANTEED USE OF LINE AND OF AMOUNT CONTAINED IN PENALTY CLAUSE. ALL CONDITIONS ARE ACCEPTABLE TO CEOA. REDUCED USE OF LINE FREES CAPACITY TO CONFIDENTIAL

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MEET GERMAN REQUEST FOR ADDITIONAL MOVEMENT OVER LONGER DISTANCE WITH RESULTANT HIGHER REVENUES TO CEPS.

C. BELGIAN CIVIL TARIFF. BELGIUM REPORTED NEGOTIATIONS WITH CIVIL COMPANIES FOR ITS PORTION OF CEPS, WHICH WOULD RESULT IN CIVIL TARIFF INCREASES OF FROM 13 TO 26 PERCENT.

D. EFFECT OF CIVIL AND MILITARY TARIFF INCREASES.

GENERAL MANAGER ESTIMATED THAT THE PREVIOUSLY PREDICTED SHORTFALL OF FF 43.8 MILLION, IF NO FURTHER MAJOR DEVELOPMENTS OCCUR, CAN BE REDUCED TO FF 40 MILLION. THIS TAKES INTO ACCOUNT INCREASED BUDGET COSTS DUE TO THE ADN ENGINE PROGRAM AND INCREASED COSTS OF FUEL AS WELL AS INCREASED REVENUES DUE TO HIGHER MILITARY AND CIVIL TARIFFS(BELGIAN AND GERMAN CIVIL INCREASES NOT YET ACCOUNTED FOR)M

E. MILITARY MOVEMENTS MARSEILLES TO BELFORT.

THE FRENCH MILITARY UNIT WHICH USES THIS LINE REPORTED RECENTLY TO CEOA THAT THE MILITARY PRODUCT COULD BE TRANSPORTED FOR A COST TWO CEPS UNITS (APPROXIMATELY FF 2) LOWER THAN THE CURRENT CEPS TARIFF. FRENCH REGULATIONS REQUIRE THE MOST ECONOMICAL

RATE BUT SINCE THE FRENCH WISH TO CONTINUE USING THIS CEPS LINE, THEY REQUESTED A REDUCTION IN CEPS CHARGES. THE RESULT AGREED UPON IS A REDUCTION OF ONE CEPS UNIT IN THE TARIFF, WHICH THE COMMITTEE APPROVED.

F. BELGIAN ITEMS.

THE BELGIAN REP (DUPONT) REQUESTED THAT CEOA REVIEW THEIR FINANCIAL OPERATIONS INVIEW OF RECENT FLOATING OF FRENCH FRANC. DEOA AGREED TO REPORT ON THIS ITEM AT NEXT MEETING. MR DUPONT ALSO REPORTED THAT HE WILL HAVE HIS REPORT ON CUSTOMS AND TAXES TO THE TRANSLATORS BY THE END OF FEBRUARY.

G. SPECIAL REPORT ON TRAPIL.

AN ADVANCE COPY OF THE GENERAL MANAGER'S REPORT TO THE NATO BOARD OF AUDITORS WAS DISTRIBUTED (COPY TO BE POUCHED). THE COMPANION REPORT OF THREE RAPORTEURS IS EXPECTED WITHINT THE CONFIDENTIAL

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NEXT FEW WEEKS.

X. RESTRICTED SESSION: FUTURE COURSE OF ACTION TO SEEK REPLACEMENT OF THE GENERAL MANAGER, CEOA.

IN CLOSED COMMITTEE MEETING, THE NATIONS RESTATED THEIR POSITONS ON REPLACEMENT OF GENERAL MANAGER. US REPEATED ITS VIEW (SEE REF C) THAT "GENTLEMEN'S AGREEMENT" IS DEAD AND THAT SENIOR CEOA MANAGEMENT POSITIONS SHOULD BE FILLED WITH THE BEST QUALIFIED PERSONNEL AVAILABL E.

ALL OTHER NATIONS INDICATED ACCEPTANCE OF GENTLEMEN'S AGREEMENT (WHICH HAS GENERAL MANAGERSHIP COMING FROM BELELUX COUNTRIES ON ROTATING BASIS WITH BELGIUM NEXT IN LINE). GERMANY RESERVED THE RIGHT TO RECONSIDER AND NOMINATE IF ANY OTHER NATION DID NOT AGREE WITH PROCEDURE. COMMITTEE THEN REQUESTED TO PROVIDE NONIMATIONS BY JUNE MEETING DATES (24-26 JUNE). COMMENT. TO ENSURE THAT POST OF GENERAL MANAGER IS FILLED WITH BEST QUALIFIED AVAILABLE CANDIDATE, MISSION REMAINS CONVINCED THAT US SHOULD MAKE NOMINATION. OTHERWISE, WE WILL HAVE TO ACCEPT WHOEVER IS NOMINATED BY BELGIUM, WHETHER SATISFACTORY OR NOT. SUCH WAS THE CASE WITH GEN HARTEON, ROBERTUS' PREDECESSOR, WHO WAS INFORMED BY FRANCE OF THE EXTRA PAYMENTS TO TRAPIL BUT CHOSE NOT TO INFORM THE CEPPC. END COMMENT.
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